

Message Text

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UNCLAS BOMBAY 1271

E. O. 11652: N/A
TAGS: BPRO, IN
SUBJ: PROPOSED EXIMBANK ASSISTANCE IN FINANCING EXPORTS TO
ORIENTAL POWER CABLE LTD.

REF : STATE 121960

1. ORIENTAL POWER CABLES LTD. (OPCL), BOMBAY, ESTABLISHED IN 1961, IS A MANUFACTURER OF POWER LINE CABLES (PILC, PVC AND ACSR/AA CONDUCTOR TYPES) NEAR KOTA IN RAJASTHAN. THE FIRM'S GENERAL MANAGER H.N. SHRIVASTAVA RECENTLY TOLD US THAT OPCL IS PLANNING TO MANUFACTURE CROSS LINKED POLYTHELENE (XLP) CABLES IN PLACE OF PILC CABLE AND IS NEGOTIATING FOR PURCHASE OF NECESSARY EQUIPMENT ABROAD.

2. OPERATIONAL STATUS: ACCORDING TO THE BOMBAY STOCK EXCHANGE DIRECTORY OPCL'S NET SALES OF CABLES INCREASED OVER THREE TIMES BETWEEN 1967 AND 1976 FROM RS.26 MILLION TO RS.80 MILLION (\$1 EQUALS RS.8.40). HOWEVER, ITS OPERATING PROFITS DURING THE PERIOD WERE DISCOURAGING. ONLY IN 1967 THE FIRM SHOWED A RETURN OF 17 PERCENT. IN OTHER YEARS, IT HAD OPERATING PROFITS EITHER BELOW FIVE PERCENT OR WERE IN MINUS FIGURES. PROFIT IN 1976-77 HAD ALSO BEEN LOW. IN THE LAST ELEVEN YEARS THE FIRM HAD NOT DECLARED
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ANY DIVIDENDS TO ITS COMMON STOCK HOLDERS AND HAD, DEBTS DUE TO HOLDERS OF PREFERRED STOCK. ALTHOUGH OPCL GENERAL MANAGER SHRIVASTAVA EXPECTS BETTER RESULTS IN FUTURE YEAR, WE DOUBT THAT OPCL'S OPERATIONAL PERFORMANCE WOULD IMPROVE SUBSTANTIALLY TO MEET ADDITIONAL FINANCIAL OBLIGATIONS.

3. FINANCIAL STATUS: A FEW OF THE KEY FINANCIAL INDICATORS

ON OPCL GIVEN IN THE BOMBAY STOCK EXCHANGE DIRECTORY FOR THE CORPORATE FINANCIAL YEAR ENDED MAY 76 ARE AS FOLLOWS: NET WORTH TO TOTAL ASSETS - 19 PERCENT; TOTAL LIABILITIES TO NET WORTH 416 PERCENT; OPERATING PROFIT TO NET SALES - MINUS 4 PERCENT; RETURN ON TOTAL CAPITAL EMPLOYED - 3.77 PERCENT, AND NET PROFIT TO TOTAL ASSETS - MINUS 5 PERCENT. MAJOR FINANCIAL OBLIGATIONS OF OPCL, AS ON IN MAY 77 WERE AN OUTSTANDING LOAN OF RS.8.6 MILLION FROM GOVERNMENT OF INDIA OWNED INDUSTRIAL FINANCE CORPORATION OF INDIA THROUGH A MORTGAGE ON FIXED ASSETS OF THE COMPANY (ANNUAL INSTALMENT DUE RS.1.3 MILLION); ANOTHER UNSECURED LOAN PLUS UNPAID INTEREST TOTALPYG RS.1.9 MILLION FROM STATE GOVERNMENT-OWNED RAJASTHAN STATE FINANCE CORPORATION; DEPOSITS AND LOANS FROM PUBLIC TOTALING RS.3.5 MILLION; AND ARREARS OF OVER RS.1.1 MILLION ON ITS PREFERENCE DIVIDEND. IN ADDITION OPCL IS AT PRESENT UNDER OBLIGATION TO REDEEM CUMULATIVE PREFERENCE STOCK VALUED AT APPROXIMATELY RS.3 MILLION. THE FIRM'S ANNUAL REPORT FOR 1976-77 STATED THAT THE REDEMPTION "COULD NOT BE DONE BECAUSE OF ADVERSE FINANCIAL POSITION OF THE COMPANY" AND THAT OPCL IS NEGOTIATING FOR DEFERMENT OF REDEMPTION BY OFFERING HIGHER RATE OF DIVIDEND TO THE PREFERRED STOCK HOLDERS, MAINLY THE GOVERNMENT OF INDIA OWNED LIFE INSURANCE CORPORATION OF INDIA.

4. COMMENT: WHILE THERE ARE NO POLITICAL OBJECTIONS TO UNCLASSIFIED

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EXIM'S PARTICIPATION IN THE PROPOSED TRANSACTION, WE BELIEVE THAT THE OPCL'S STRAINED FINANCIAL POSITION CALLS FOR A CAREFUL REVIEW OF THE FIRM'S ABILITY TO TAKE ON FURTHER DEBTS. WE SUGGEST THAT OPCL'S PROPOSAL BE CONSIDERED ONLY ON A FULLY SECURED BASIS.

5. PHOTOCOPY OF THE BOMBAY STOCK EXCHANGE DIRECTORY ON OPCL AND A COPY OF THE 1976-77 ANNUAL REPORT ARE BEING AIRPOUCHED.
COURTNEY

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